

CHAPTER 7

PHYSICAL INVENTORY CONTROLA. GENERAL

1. This chapter provides procedures, performance objectives, and effectiveness reporting to enhance supply effectiveness by improving the accuracy of inventory control and asset information in the wholesale supply system of the DoD.

2. Basic elements of the physical inventory control program prescribed by this chapter apply to the Military Departments and the Defense Agencies, hereafter referred to as DoD Components, and establish:

a. Uniform procedures, based on existing DoD policy, for maintaining accurate records, conducting physical inventories and location surveys/reconciliations, researching potential inventory discrepancies, and for quality control of work processes affecting inventory accuracy.

b. Management control of all DoD wholesale supply system assets of:

(1) principal items,

(2) package fuels,

(3) secondary items on hand at CONUS and overseas depots as well as other selected distribution system storage sites including contractor-owned and/or contractor-operated facilities when assets are maintained on the DoD wholesale accountable records (excluding loaned materiel which will be accounted for in accordance with chapter 4, section N.), and

(4) ammunition.

c. Comparable measures of performance for cost effective analysis among the various inventory control systems.

d. Reporting procedures necessary to measure the effectiveness of physical inventory control in the DoD supply system.

3. Exclusions

a. These procedures are not applicable to bulk petroleum, complete ships, aircraft, ballistic missiles, nuclear **weapons**, and space vehicles; contractor-owned and/or contractor-operated facilities for which the assets are not maintained on the DoD wholesale

IPE reportable to the **DIPEC**; and National Security Agency/Central Security Service assets.

b. Physical inventory control procedures for bulk petroleum are **contained** in DoD 4000.25-9-M (reference (r)).

c. Nuclear weapons for which DoD has **custodial** responsibility **are** inventoried in accordance with JCS Pub 6 (reference (s), Volume II, Part 4, Section 5).

B. POLICY

DoD policy is contained in DoD Instruction 4140.35, (reference (t)).

c. PHYSICAL INVENTORY PROCEDURES

1. The nature of inventory inaccuracies and the cost of counting and reconciliation require that the approach to the taking of **physical** inventory be more selective than the 100 percent wall-to-wall total item count concept. Available inventory resources must be directed toward those discrepancies, controlled inventory items, and high usage items for which the maximum returns will be derived from the resources which are applied.

2. DoD Components will conduct scheduled inventories on **all** items for which they are accountable, as follows:

a. Items subject to complete inventory not less than once each fiscal year:

(1) Controlled inventory items (see figure 7-2). In some instances physical inventory and location surveys will be conducted concurrently for ammunition.

(2) Any other items or categories so designated by the DoD Components.

b. Items not otherwise scheduled for a complete inventory under the criteria prescribed in subparagraph **C.2.a.** will be subject to either a random sampling or a selective physical inventory system which includes all items as potential candidates for inventory but which predominantly selects those items with the greatest significance for supply support as determined by the Service/Agency.

3. The random sampling technique will be guided by the following criteria:

a. If used, a minimum **of one-third** of those items not inventoried by other means shall be the universe for performing sample inventories each year and each item will be included at least once in the sample universe during a, 3-year period.

b. Samples which do not meet the DoD acceptable accuracy level of 85 percent (with a 95 percent confidence level) will be subjected to a total item inventory not later than 90 calendar days following the month in which the sample fails to meet the established level. Accuracy level quantities will be established based on sample size as indicated in MI L-s TD-105 (reference (u)).

c. The inaccuracies to be used as the basis for measuring performance will be only those major variances which have been properly classified after due consideration of all in float documentation.

d. When resources permit, DoD Components may impose a more stringent major variance rule for greater internal control .

4. Physical Inventory procedures will provide the required asset-to-record accuracy with positive control of materiel and documentation which are in float, including materiel release orders, receipts, catalog and other data changes, etc. **PICDs** and **PIICDs** must be established, and the ability to strike the accountable record balance and to identify and consider all preinventory and **postinven-**tory actions must exist. Storage activities will observe the **established** PICD and transmit the **DI** Code DKA Physical Inventory Count transactions to the ICP within 30 calendar days subsequent to the **PICD**. See paragraph C.10. regarding rescheduling inventories.

5. Physical inventory and requisition processing systems/procedures **will** be designed to enhance inventory effectiveness as follows:

a. The volume of in float accountable documents during the period required for an item count will be minimized by suspending the issue of low priority materiel release transactions for items undergoing inventory unless there is a. positive control over in float documentation (i. e., materiel release of items undergoing inventory will be restricted to high priority transactions such as DoD Directive 4410.6 (U **MMIPS** reference (v)), Priority Designator 01-08).

b. The time required for inventory will be reduced through the optimum design of sample size.

c. The potential for count inaccuracies will be reduced by conducting preinventory planning to include:

(1) Actions to ensure location integrity by correcting such situations as unpinned/ loose materiel; questionable identity of materiel in location; and multiple conditions, shelf-life (including

date of pack/date of expiration), and/or materiel **lots** stored in a single location.

(2) Document cleanup to ensure to the extent possible that adjustments and transaction reversals are posted to the record, **inprocess** receipts are stored in location, and related transactions are transmitted to the ICP prior to the established physical inventory cutoff date.

6. All receipts accomplished during the inventory period for which materiel is placed in stock, recorded on the custodial records, and included in the inventory count will be accounted for as **preinventory** transactions. Internal procedures **will** be established to prescribe the criteria to account for the inventory count, and to control and process the receipt documents.

7. Type of physical inventory/transaction history codes are provided to permit identification of the types of inventories and/or to indicate custodial balance and transaction history transmission requirements. The appropriate code from appendix B3 will be entered in record position 7 of **DI** Codes DJA, DJB, DKA, DZJ, and DZK transactions.

8. A scheduled or unscheduled inventory may be requested by one inventory manager, APO or APO designated representative, or storage activity for commingled assets belonging to more than one Service/Agency owner. When commingled assets are to be inventoried, the storage activity will provide a **DI** Code DJB Inventory Notification, prepared in the appendix **C17** format, to the affected owners/managers. Instructions regarding the preparation and transmission of the DJB notification are contained in subparagraph **C.9.d.** When commingled assets are owned by multiple managers within a single Service/Agency, use of the inventory notification is optional.

9. Unscheduled Inventories

a. Before a special physical inventory is requested by authorized personnel, the date that the last inventory was taken will be determined. If an inventory has been taken within the past 90 days, an effort will be made to construct a transaction history and from it determine what the item asset position should be or what discrepancy may have caused an imbalance. Only when these efforts fail to produce satisfactory results will special inventories be generated. The procedure for restricting special inventories may be waived when the inventory manager has recorded backorders for the item involved. Special inventories will be requested by transmitting to storage activities **DI** Code DJA Physical Inventory Request transactions which are prepared in the appendix C16 format and which cite Type of Physical Inventory/Transaction History Code C in record position 7. When information for a specific **supply** condition code is required,

cite code D in record position 7 of **DI** Code DJA. When punched card transactions are used, they will be prepared on general purpose cards.

b. Spot inventories will be accomplished as a result of a total or partial materiel denial.

c. When an unscheduled inventory is requested for commingled assets, storage activities will transmit **DI** Code DJB Physical Inventory Notifications to affected managers as prescribed in preceding paragraph C.8.

d. **DI** Code DJA Physical Inventory Requests (see appendix C16) and **DI** Code DJB Physical Inventory Notifications (see appendix C17) will cite a **PIICD** in record positions 35-38 and a **PICD** in record positions 61-64. These dates will be used to strike the accountable record balance, initiate controls over **inprocess** materiels and transactions, and determine whether the inventory count is in agreement with the inventory record balance. The physical inventory in float control date must precede the physical inventory cutoff date by not less than 5 days. Physical Inventory requests and notifications must be forwarded to the intended recipient at least 1 day preceding the physical inventory in float control date. DoD Components may establish other time standards for these dates within distribution systems under their control.

e. Storage activities will observe the established **PICD** shown in the request/notification and transmit **DI** Code DKA Physical Inventory Count transactions to the ICP within 10 calendar days subsequent to the **PICD**.

10. Rescheduling Inventories. When the storage activity cannot meet the established Inventory timeframe (e. g., when a request has been received and the **schedule** cannot be met-or sufficient time does not remain to notify other affected owners/managers), the storage activity will reschedule the inventory. In such instances, the storage activity will provide a **DI** Code DJB Inventory Notification to each affected owner/manager. Activities receiving **DI** Code DJB Inventory Notifications will take action to delete any previously, established inventory controls, including physical inventory cutoff and in float control dates, and establish new controls based on the data provided in the DJB notification.

11. Recording Inventory Counts

a. Use Service/Agency prescribed forms to conduct inventories and record actual counts.

b. The DA Form 3020R or **DD** Form 1574 (**MILSTD-129** tag) balance may be used as the first count for ammunition.

c. After **postcount** validation and preadjustment research, the storage activity will update the custodial record. When the custodial record reflects more than one owner for commingled assets, the storage activity will attempt to determine where to apply any gain or loss. If a determination cannot be made, all gains and losses will be recorded on the custodial record for the DoD manager to the extent possible (i.e., a confirmed recorded loss may never exceed the recorded balance). If the manager is **non-DoD**, gains and losses will be prorated among owners having balances. Foreign owners will incur no gains or losses as a result of inventory adjustments. When foreign-owned assets are the only remaining balance, the **ICP** will effect resolution in accordance with existing DoD policy.

12. Reporting Inventory Counts

a. Inventory counts will be transmitted on **DI** Code DKA Physical Inventory Count transactions prepared in the format prescribed in appendix C19. When punched card transactions are used, they **will** be prepared on general purpose cards.

b. When the type of physical inventory code (appendix B3) is other than D or F and the count results in a zero balance for all conditions the storage activity will submit one count transaction for the NSN citing a zero quantity and a blank **supply** condition code. If there is a positive count for any condition, the storage activity will submit one count transaction for each condition having a positive balance for the NSN.

c. **When** the type of physical inventory code is D or F (single **condition** only) and the count **results** in a zero balance for that condition, the storage activity **will** submit a count transaction citing zero quantity and perpetuate the supply condition code cited in the request. Otherwise, the storage activity will submit one count transaction for the condition cited in the request.

d. DoD Component policies and inter-Service/Agency agreements prescribe the basis for segregating materiel in storage. When materiel is maintained in segregated storage, the appropriate codes for the segregated stock will be entered in **the** count' transaction(s) as prescribed in appendix C19. Enter Management Code N in record position 72 of each count transaction when the quantity reflects a balance from a **noncommingled** storage location(s). When the custodial record reflects more than one owner for commingled assets, the storage activity will submit count transactions to each owner. If the count resulted in a zero balance' for all conditions, submit one count transaction with a blank supply condition code to each owner. Enter Management Code Y in record position 72 of each count transaction when the **quantity** reflects a balance from a commingled storage location(s).

e. When subsequent research reveals that a previous accountable transaction(s) was not recorded against an owner/manager balance, the owner/manager will take corrective action and advise the storage activity to initiate corrective action locally, if appropriate (e.g., reverse the original inventory adjustment(s) and post the missing transaction(s)), and submit revised inventory count transactions to owners/managers as necessary.

13. Reconciliation of Inventory Counts With Accountable Records

a. Reconciliation of the inventory count with accountable records **will** be the responsibility of the ICP.

b. The **intra-Service/Agency** (or inter-Service/Agency based on agreement of the DoD Components involved) reconciliation of inventories may be accomplished by a match of the storage activity onhand balance record (which has been verified by a physical count) and the **ICP** accountable record.

c. The **intra-Service/Agency** (or inter-Service/Agency based on agreement of the DoD Components involved) inventory reconciliation process may include the consideration of transactions processed by the ICP and the storage activity for 15 calendar days prior to the time the count data are recorded on the storage activity record. When DoD Component procedures require automatic depot submission of 15 calendar days transaction history along with the **DI** Code DKA inventory count transaction(s), the **DI** Code DZK Transaction History Transmittal will be used to submit the history data. The **DI** Code **DZK** transaction will be prepared in the appendix C61 format and will cite Type of Physical Inventory/Transaction History Code W in record position 7 to identify automatic history submission.

d. DoD Component policies and inter-Service/Agency agreements prescribe the basis for segregating materiel in storage. When materiel is maintained in segregated storage, the storage activity enters the appropriate codes for the segregated stock in the count transaction(s) as prescribed in appendix C19.

e. After postcount validation and preadjustment research, the storage activity updates the custodial record. When the custodial record reflects more than one owner for commingled assets, the storage activity attempts to determine where to apply any gain or loss. If a determination cannot be made, all gains and losses will be recorded on the custodial record for the DoD Manager. If the manager is **non-DoD**, gains and losses will be prorated among owners having balances. Foreign owners will incur no gains or **losses** as a result of inventory adjustments. When foreign-owned assets are the only remaining balance, resolution will be in accordance with existing DoD policy. When an owner/manager determines that a count is erroneous because an accountable transaction did not update a custodial record owner/manager balance, the owner/manager will take

corrective action and advise the storage activity to initiate corrective action locally, if appropriate (e.g., reverse the original inventory adjustment(s) and post the missing transactions), and submit revised counts to **owners/managers** as necessary.

f. ICPS will generate and process the necessary increase or decrease inventory adjustment transactions against the accountable records. Inventory adjustment transactions will be prepared in the appendix **C4** format and will cite **DI** Code D8A or D9A, as appropriate.

14. Reconciliation of Accountable Records with Financial Value Records. Services/Agencies will **internally** prescribe procedures to reconcile accountable record property values with financial record values to ensure compatibility of the total inventory value reflected by these records and associated reports.

15. Requesting and Reporting Recounts

a. When recount is required, the **ICP** will prepare a **DI** Code **DJA** Physical Inventory Request transaction in the appendix **C16** format citing Management Code **M** to indicate a request for recount.

b. Storage activities will perform the recount actions and will report the count to the **ICP** within 5 calendar days subsequent to the physical inventory cutoff date in the request using the **DI** Code **DKA** Physical Inventory Count transaction. The transaction will be prepared in the appendix **C19** format and will cite **Management** Code **M** to indicate submission of a recount.

c. Recount is not required when the value of the variance for the **NSN** is \$800 or less and the item is not controlled.

D. RESEARCH OF POTENTIAL OR ACTUAL PHYSICAL INVENTORY ADJUSTMENTS

1. DoD Components will ensure that potential or actual adjustments are researched in accordance with the value of the adjustment and type of item involved. A reduction of the volume of erroneous adjustments can only be achieved by conducting specified degrees of research before posting the adjustment transaction. The DoD criteria for this research are set forth in figure 7-1 and will be used as the basis for selective research by activities accountable for supply system materiel. More stringent research requirements may be imposed by DoD Components based upon the limits of resources available and upon specific asset control problems.

2. Analysis of inventory adjustments is vital in order to:

a. Provide the item manager with some indications of the failures in the control systems so improvements can be made.

- b. Reduce similar discrepancies in the future.
- c. Ensure that the proper adjustment was made.
- d. Evaluate indicators of trends or system problems for corrective action.

3. Timely completion of the research of potential adjustments is essential. Delay only increases the complexities of adequate research and reduces the probability of conclusive research. DoD Components shall specify the maximum timeframes which will be permitted for completion of research before the adjustment is processed to the accountable record.

4. When circumstances prevent implementation of the criteria set forth in figure 7-1 and reduced adjustment criteria are required, the DoD Components taking exception will submit their alternative research criteria to the DoD **MILSTRAP** System Administrator with justification for the proposed change.

5. For **intra-Service/Agency** (or inter-Service/Agency based on agreement of the DoD Components involved) reconciliation of inventories, the **ICP** may request transaction history and/or custodial balances from the storage activity for analyzing inventory discrepancies. The history/balance will be requested using a **DI** Code DZJ Transaction History/Custodial Balance Request, prepared in the appendix C60 format, citing the appropriate Appendix B3, Type of Physical Inventory/Transaction History Code, in **record** position 7. When transaction history is requested, the transaction history timeframe (start date and number of prior days history required) will be entered in record positions 25-31. The storage activity will provide the transaction history data using the **DI** Code DZK Transaction History Transmittal prepared in the appendix C61 format. The transmission media will be determined from the Appendix B17, Type of Media Code, entered in record position 60 of the **DI** Code DZJ request. The storage activity will provide custodial balances using the **DI** Code DKA Physical Inventory Count transaction; the Type of **Physical** Inventory/Transaction History Code Y or Z in record position 7, perpetuated from the **DI** Code DZJ request, will identify the quantity entered as a custodial balance only.

6. Once the causes of potential/actual inventory adjustments are determined by causative research, they **will be** classified, analyzed, and evaluated so action may be taken to correct the situation which caused the error. Error classification codes may be entered in **intra-Service/Agency** transactions and in record positions 73-75 of Physical Inventory Count Transactions (**DI** Code DKA) and record positions 63-65 of Inventory Adjustment Transactions (**DI** Codes **D8/D9**). For analysis and evaluation, error conditions **will be** identified to the operation in which they occurred (e.g., receiving, issue, etc.) and classified by type within each operation. For

reporting purposes, each operation and each error type have been identified by an alphabetic or numeric code **as** shown in appendix **B18**. The error classification system is structured to provide the Services/Agencies the latitude to amplify the DoD defined error classifications; however, the capability to summarize internally defined error classifications to the appropriate DoD classification must be maintained.

7. Unresolved physical inventory loss adjustments for controlled inventory items will be referred to security officials of the storage activity from which the loss occurred to determine whether there is probable cause to suspect theft.

8. **MILSTRIP** (reference (h)), prescribes DoD standard document formats, data codes, and criteria for the preparation and processing of materiel release denials at storage activities and inventory control points. To facilitate research for ascertaining the validity of materiel denials, a denial suspense procedure will be implemented by the ICP. The suspense procedure shall, as a minimum, designate an organization responsible for:

a. Allowing a time delay, between the discovery of the potential discrepancy which resulted in denial and processing of an accountable record adjustment, to perform research.

b. Prescribing a time limit, not to exceed 30 calendar days, on the period a potential discrepancy may remain suspended.

E. REVERSAL OF INVENTORY ADJUSTMENTS

Reversals of inventory adjustments are a required capability which must be implemented with proper controls. Procedures for reversing adjustments will contain, as a minimum, the following control features:

1. A time **limit**, not to exceed one year measured from the date of the original adjustment transaction, will be established for processing reversals. **If** an inventory has been completed between the date of the original adjustment and the date reversal action is attempted, the reversal will not be permitted.

2. Use of the original adjustment **document** number to effect reversals and an edit to match document numbers. Reversal of unmatched document numbers will not be permitted.

3. A capability to separate and identify reversals against transactions processed within the adjustment reporting period to, report:

a. Gross adjustment during the current period.

b. Reversal of prior quarters' adjustment transactions.

c. Reversal of current quarters' adjustment transactions.

d. Total value of net adjustments during the current period (i.e., **value** of net gains added to value of net losses).

F. LOCATION AUDIT PROGRAM

Each DoD Component will implement a location audit program which will consist of both a location survey and a location reconciliation. The DoD acceptable accuracy goals are (a) Location Survey Accuracy--97 percent, and (b) Location Reconciliation Accuracy--97 percent. DoD Components may impose more stringent standards internally.

1. Location Audit Program Errors

a. There are three types of errors uncovered in the location audit program.

(1) Type 1. Accountable/custodial records which show a positive stock balance with no supporting locator record, locator record established with no physical assets in storage, or physical assets in storage with no supporting locator record.

(2) Type 2. Locator record with no supporting accountable record. (Location reconciliation error only.)

(3) Type 3. Mismatch of any of the following data elements (when optional elements are included in the location survey or location reconciliation program, they will be used in calculating the accuracy rate):

(a) Unit of issue.

(b) Supply condition code.

(c) NSN has been deleted or is under the cognizance of another inventory manager.

(d) Ownership **code.¹**

(e) Physical security/pilferage code. (For location survey, verification of the code will consist of ensuring that assets are stored in areas providing the degree of security commensurate with the assigned code.)

¹For location reconciliation only.

(f) Shelf-life code.

(g) Quantity (optional).

(h) Type of pack code (for subsistence only). (See MILSTRIP (reference (h)), appendix 623).

(i) Inventory category code (optional).¹

b. Errors will be subject to validation research before they are counted as errors. Location audit program results will be reported in the Inventory Control Effectiveness Report as prescribed in section J. Only one error per surveyed location and one error per location reconciliation line item with discrepancies is to be reported; however, DoD Components will collect and analyze all Type 3 errors by element.

2. Location Survey

a. Location survey requires a physical verification, other than actual count, between actual assets and recorded location data to ensure that all assets are properly recorded as to location, identity, condition, shelf-life code, and unit of issue. As an option, Services/Agencies may include a quantity comparison for physical inventory purposes. In some instances, location survey and physical inventory will be conducted concurrently for ammunition.

b. A complete location survey of all items at each storage activity will be conducted not less than once each fiscal year and more frequently if the need is indicated.

c. The proper sequence of operating a location survey requires the comparing of assets found in storage locations with locator records. This sequence of operation is important to detect assets in unrecorded locations.

d. As an objective, it is desirable to identify items to inventory lots or segments. Lots/segments will be of a manageable size (number of items) to permit location survey in a minimum time period, to ensure maximum uninterrupted service to customers, and to obtain the greatest degree of accuracy from the location survey.

e. Items within a lot/segment which have been subject to a complete item inventory will be considered to have satisfied the annual survey requirement when the entire lot/segment is located in a clearly designated, coterminous warehouse space. These inventoried

¹For location reconciliation only.

lots/segments may be excluded from the complete survey for the fiscal year in which they were counted.

f. When permanent locations are reserved for items, recorded locations which are unoccupied should be identified and/or verified during the location survey. These records should be appropriately coded or deleted from the location reconciliation.

g. To measure the accuracy of the results of the location survey, discrepancies will be classified in one of the three categories listed below. Only one error is charged when a locator record deletion and/or established and/or correction is required for the same location (i. e., one error per NSN per location). When the NSN and actual assets differ, the discrepancy will be classified as a 1 category established action only.

(1) Locator record deletion. The removal or change of a locator record when there is a recorded location but no physical assets--unless the location is being held open for new receipts. (Type 1 Location Audit Program Error.)

(2) Locator record established. The recording of locations when assets are physically found in storage and no locator records exist, or when the recorded NSN disagrees with the materiel in the location. (Type 1 Location Audit Program Error.)

(3) Locator record corrected. Changes to the locator record when physical asset identification characteristics differ on the elements identified in section F.1. a.(3) as applicable to location survey. (Type 3 Location Audit Program Error.)

3. Location Reconciliation

a. Location reconciliation requires a match between valid storage activity records and the accountable records in order to identify and to correct situations where (a) items are in physical storage but not on record, (b) on record but not in storage, and (c) where common elements of data (may include quantity) do not match. Mismatches will be researched and special inventories conducted when required to effect corrective action.

b. A location reconciliation will be conducted not less than once each fiscal year.

(1) An **intra-Service/Agency** location reconciliation will be scheduled by each DoD Component.

(2) An **inter-Service/Agency** location reconciliation will be conducted when items are stored by one DoD Component for another DoD Component which manages and accounts for the items. Inter-Service reconciliation requests will be prepared on the first

Tuesday in September and transmitted no later than the **15th** day of September. Due to the nature of the ammunition program and to the magnitude of DLA items positioned at Service storage sites, the reconciliation schedule at these storage locations pertaining to ammunition and DLA items will be as mutually agreed to by the **SMCA/** DLA and applicable Service. (See Joint Regulation DLAM 4140.2, AR 735-110, **NAVSUPINST** 4400.79, **MCO** P4400.101, Volume I for DLA items (reference (w)).)

c. Storage activities will prepare location reconciliation request transactions by condition for each NSN in the item locator file. Location reconciliation requests will be identified by **DI** Code DZH and will be prepared in the appendix C59 format. For **intra-Service/Agency** requests (or **inter-Service/Agency** requests when agreed by the DoD Components involved) the reconciliation request may include the applicable quantity for the owner/manager in record positions 25-34. The reconciliation requests will be transmitted to the **ICPs** that are accountable for the items. Intended recipients of reconciliation requests will be advised of the total number of transactions being forwarded. The **intra-Service/Agency** (or **inter-Service/Agency** based on agreement of the DoD Components involved) location reconciliation process may include the consideration of transactions processed by the ICP and the storage activity for 15 calendar days prior to the reconciliation cutoff date. When DoD Component procedures require automatic depot submission of 15 calendar days transaction history along with the **DI** Code DZH Location Reconciliation Request transaction(s), the **DI** Code DZK Transaction History Transmittal will be used to submit the history data. **DI** Code DZK transactions will be prepared in the appendix **C61** format and will cite Type of Physical Inventory/Transaction **History** Code W in record position 7 to identify automatic history submission.

d. Recipients of location reconciliation requests will match the requests to the accountable item records. All initial rejects/mismatches from the location reconciliation match should be researched immediately to assure consideration of all, **infloat** documents. For **intra-Service/Agency** (or **inter-Service/Agency** based on agreement of the DoD Components involved) reconciliation, the **ICP** may request transaction history and/or custodial balances from the storage activity for analyzing discrepancies. The history/balance will be requested using a **DI** Code DZJ Transaction History/Custodial Balance Request, prepared in the appendix C60 format, citing the appropriate Appendix 63, Type of Physical Inventory/Transaction History Code, in record position 7. When transaction history is requested, the transaction history timeframe (start date and number of prior

2When quantity is included based on agreement of the DoD Components involved, the actual cutoff date will be negotiated each year by the affected DoD Components.

days history required) will be entered in record positions 25-31. The storage activity will provide the transaction history data using the **DI** Code DZK Transaction History Transmittal prepared in the appendix **C61** format. The transmission media will be determined from the Appendix B17, Type of Media Code, entered in record position 60 of the **DI** Code DZJ request. The storage activity will provide custodial balances using the **DI** Code DKA **Physical** Inventory Count transaction; the Type of Physical Inventory/Transaction History Code Y or Z, perpetuated from the **DI** Code DZJ request, will identify the quantity entered as a custodial balance only.

e. When record mismatches for other than controlled items are discovered during the location reconciliation program, adjustments may be processed to the accountable record under the following conditions:

(1) When the Service/Agency system includes quantity in the location reconciliation and the storage activity and ICP transaction history are compared for mismatches back to the last reconciliation or inventory, whichever is **sooner**, the accountable record may be adjusted without special inventory when the extended value of the variance is \$800 or less for Type 1 and Type 2 errors. If a history comparison is not made, automatic adjustments without special inventory will be limited to variances of \$100 or less. (See section E. for processing adjustment reversals.)

(2) When the Service/Agency system does not include quantity in the location reconciliation, the accountable record may be adjusted without special inventory when the extended value of the variance for Type 1 errors is \$100 or less. For Type 2 errors, a special inventory must be requested.

f. Required special inventories as a result of location reconciliation mismatches should be accomplished immediately.

g. When a discrepancy is identified during the location reconciliation program, the following transactions, as appropriate, will be transmitted to the submitting activity:

(1) **DI** Code DZG Transaction Reject as prescribed in chapter 9 and prepared in the appendix C58 format.

(2) **DI** Code DZB Storage Item Data Correction as prescribed in chapter 10 and prepared in the appendix C53 format.

(3) **DI** Code DJA Request for Inventory (special) as prescribed in section **C.9.** and prepared in the format shown in appendix C16.

h. To measure the accuracy of the results of the location reconciliation program, discrepancies will be classified in one of

the three categories listed below (report only one error per location reconciliation line item with discrepancies):

(1) Accountable record reflects balance for storage activity; no location reconciliation received. (Type 1 Location Audit Program Error.)

(2) Location reconciliation received from storage activity; accountable record reflects no balance. (Type 2 Location Audit Program Error.)

(3) Mismatch on the elements identified in section F.1. a.(3) as applicable to location reconciliation. (Type 3 Location Audit Program Error.)

G. RETENTION OF ACCOUNTABLE DOCUMENTATION

Audit capability is required for a period of time following the processing of documents and data and completion of the research effort. The following retention criteria will apply:

1. Source documents will be retained for at least one year. These include only accountability change documents such as receipts, issues, shipments, transfers, and supply condition code changes.

2. Registers, records, files, tapes and data will be retained for at least two years in a format useful for audit trail purposes. Automated inventory control systems will be designed to facilitate the printout of transaction histories which indicate the date the last physical inventory was conducted for each item.

3. Backup documentation that directly pertains to individual cases of physical inventory adjustment research efforts will be retained for at least one year.

H. QUALITY CONTROL

1. DoD Components will establish a quality control program which **encompasses** the objectives of DoD Directive 4155.1 (reference (x)) and the physical inventory objectives as contained in DoDI 4140.35 (reference (t)). Portions of the program can be accomplished during ongoing practices within inventory processes. The purpose of the program is to assist management in identifying those human, procedural, or system errors which adversely affect the wholesale asset accuracy and in achieving better control over physical assets and warehousing practices. Within the scope of this quality control program, those work processes directly related to the control of physical assets will be monitored to assure acceptable levels of performance. Accordingly, all quality control programs **will** ensure that the following work processes are included:

a. Warehousing practices-- to include checks of storage practices, stock rotation, shelf life, identification of materiel in storage, mixed stock, and location accuracy. Separate but identical quality checks will be made following any major rewarehousing projects.

b. Receiving practice s-- to include checks of documentation, materiel identity, quantity, materiel supply condition code, processing timeliness, and verification of daily input data to the location system.

c. Issuing practice s-- to include checks of legibility of issue documents, accuracy of stock selection as to identity, quantity, unit of issue, shelf life, supply condition code, type of pack (subsistence only) , marking of outgoing shipments, and release to carriers.

d. Validity of automated data--to include checks of **all** receipt, issue, and adjustment transaction data entries against input documentation.

e. Inventory practice s-- to include checks of all inventory counts, location surveys, location reconciliations, causative research, and adjustments at both the ICP and storage activities.

f. Catalog practice s-- to include checks of all catalog change processing, using the affected recorded locations as the universe.

g. Locator file updates--to sample the accuracy of changes posted to the locator file (e. g., all additions, deletions, and changes of unit of issue, supply condition code, shelf **life**, etc.) at least weekly.

2. Whenever possible, quality control checks of these work processes will include identification of the individual performing the tasks to provide a means to motivate improved individual performance.

3. Continued command management emphasis and review of performance are essential for the success of the quality control program. Command managers must ensure effective organizational inter-relationships among the functional elements concerned with the physical inventory control program such as: comptroller, data systems, transportation, warehousing, maintenance, quality control , and supply management. When quality control checks reveal that the level of accuracy for an operation does not meet a DoD prescribed accuracy goal , appropriate command corrective action will be directed.

I. REPORT OF INVENTORY CONTROL EFFECTIVENESS

1. Each DoD Component will prepare Reports of Inventory Control Effectiveness, as formatted in appendix A5, for each quarterly period

ending December 31, March 31, June 30, and September 30. **Submit** a separate report, so identified in the top line, to reflect the values and performance statistics for ammunition, and omit these figures **from** the general report for DoD wholesale supply system materiel . Reports will:

a. Be prepared in accordance with the **instructions** in section J. When goals are not achieved, the report will be accompanied by a narrative analysis of the trends and significant comments on physical inventory control performance reflected in the report to include major error causes and corrective action initiated.

b. Reflect inventory control **performance** for all DoD wholesale supply system assets of principal and secondary items (including package fuels) less all materiel exclusions listed in DoDI 4140.35 (reference (t)), (i. e., bulk petroleum, complete ships, aircraft, ballistic missiles, nuclear weapons, and space vehicles; **contractor-owned** and/or contractor-operated facilities for which the assets are not maintained on the DoD wholesale accountable record; IPE **reportable** to the DIP EC; and National Security Agency/Central Security Service assets).

c. Be submitted in an original and 1 copy to the Defense Logistics Standard Systems Office, ANN: **DLSSO-BT**, Cameron Station, Alexandria, Virginia 22304-6100, not later than 75 calendar days following the end of the reported quarter. The above reporting requirement has been assigned RCS **DD-P&L(Q)** 935.

2. Source data used in the reporting of stock fund inventory transactions which are governed by **separate** instructions in accordance with DoD Directive 7420.1 (reference (y)) **will** also be used in preparing this report. Transaction data governed by DoD Instruction 7420.11 (reference (z)) will be used in preparing this report.

J. INSTRUCTIONS FOR PREPARING THE REPORT OF INVENTORY CONTROL EFFECTIVENESS

The following instructions are provided for preparing the ICE Report, RCS **DD-P&L(Q)** 935, appendix A5:

1. Report Heading/Columns

a. Reporting Organization. Enter the name of the reporting DoD Component.

b. Quarter Ending. Enter the date on which the quarterly report period ends. The columnar data will reflect performance during the quarterly period covered.

c. Fiscal Year to Date. Enter the last two digits of the fiscal year. The columnar entries will reflect cumulative data for the fiscal year through the end of the reporting period.

2. Columnar Entries

a. Materiel Denials. Reflects the ratio of denials to line items directed for shipment.

(1) Line Items Directed for Shipment. Enter the total number of line items directed for shipment based on accountable record assets.

(2) Materiel Denials. Enter the number of total quantity and partial quantity denials received on line items directed for shipment. All denial transactions classified by MI LSTRAP issue transaction denial Management Codes 1 through 7, excluding 4 for ammunition only (see appendix B7), will be included in the total.

(3) Percent of Materiel Denials. Compute this figure by dividing the materiel denials by the line items directed for shipment and multiplying by 100 (preceding subparagraph a(2) \div a(1) \times 100). The DoD performance goal for the materiel release denial rate is 1 percent.

b. Receipt Processing Performance. Reflects the ratio of total line item receipts to those which are posted to the accountable records and effectively stored within the MI LSTRAP time standards prescribed by chapter 4, section F.

(1) Number of Receipts Stored and Posted. Enter the total number of line item receipts stored and posted to the accountable records during the period.

(2) Number of Receipts Stored and Posted on Time. Enter the total number of line item receipts which were effectively stored and posted to the accountable records within the MI **LSTRAP** timeframes. (Effective storage occurs on the date when proof of storage is recorded or issue from the receiving line is accomplished.)

(3) Percent of Receipts Stored and Posted on Time. Compute this figure by dividing the total number of receipts stored and posted on time by the total number of receipts and multiplying by 100 (preceding subparagraph b(2) \div b(1) \times 100). The DoD performance goal for storing and posting receipts on time is 90 percent.

c. Location Audit Program. Reflects the results of the location survey (ratio of accurate storage activity locator records to storage activity locations surveyed) and the location reconciliation (ratio of valid storage activity locations to master item records).

(1) Number of Locations Surveyed. Enter the number of storage activity item locations surveyed.

(2) Number of Surveyed Locations With Discrepancies. Enter the total number of location discrepancies as defined in preceding paragraph F.1. and subparagraph F.2.g. "(report only one error per NSN per location)".

(3) Location Survey Accuracy. Compute this figure by dividing the total locations with discrepancies by the total locations surveyed, multiplying by 100, and subtracting the result from 100 percent ($100 - (\text{preceding subparagraph c(2)} \div \text{c(1)} \times 100)$). The DoD goal for location survey accuracy is 97 percent.

(4) Number of Location Records Reconciled. Enter the total number of valid location records reconciled (i.e., the sum of NSNs on the accountable record and NSNs which were not on the accountable record but were on the depots' records).

(5) Number of Location Reconciliation Line Items With Discrepancies. Enter the number of discrepant location records as defined in preceding paragraph F.1. and subparagraph F.3.i. (count one error per location reconciliation request or unmatched accountable record).

(6) Location Reconciliation Accuracy. Compute this figure by dividing the number of discrepancies by the number of records reconciled, multiplying by 100, and subtracting the result from 100 percent ($\text{preceding subparagraph c(5)} \div \text{c(4)} \times 100$). The DoD goal for location reconciliation accuracy is 97 percent.

d. Physical Inventory Program Line Items. Reflects the accuracy of the physical inventory program.

(1) Total Inventories Completed. Enter the total number of line items inventoried (scheduled and unscheduled). For sample inventories, include only those line items in the lot which are actually counted.

(2) Line Items With Major Inventory Variances. Enter the total line items inventoried (scheduled and unscheduled) which had a major inventory variance.

(3) Inventory Accuracy Rate. Reflects the percent of lines inventoried which did not have a major inventory variance. Compute this figure by dividing the lines with a major inventory variance by the total lines inventoried, multiplying by 100, and subtracting from 100 percent ($\text{preceding subparagraph d(2)} \div \text{d(1)} \times 100$).

e. Monetary Value of Physical Inventory Program. Reflects the monetary value of items being inventoried.

(1) Average Value of the Inventory. Enter the average value of onhand assets as reflected on financial records for the 12 months prior to the report cutoff date (i.e., current quarter plus past three quarters).

(2) Value of Line Items Inventoried. Enter the extended value of line items inventoried (scheduled **and** unscheduled) during reporting period (extended value of items shown in subparagraph J.2.d.(1), above).

(3) Value of Inventory Adjustments

(a) Value of Inventory Gains. Enter the **total monetary** value of increases to accountable stock record balances as a result of physical inventory. Compute the Quarter Ending value of inventory gains by netting the current reporting period values for inventory gain adjustments and for inventory gain adjustments reversed within 365 days of the original adjustment transaction (reversal of adjustments aged over 365 calendar days is not **permitted**). Compute the **FY** to Date value of gains by adding the Quarter Ending value of inventory gains (computed above) to the prior quarter **FY** to Date value of inventory gains.³

(b) Value of Inventory Losses. Enter the total **monetary** value of decreases to accountable stock record balances as a result of physical inventory. Compute the Quarter Ending value of inventory losses by netting the current reporting period values for inventory loss adjustments and for inventory loss adjustments reversed within 365 calendar days of the original adjustment transaction (reversal of adjustment aged over 365 calendar days is not permitted). Compute the **FY** to Date value of losses by adding the Quarter Ending value of inventory losses (computed above) to the prior quarter **FY** to Date value of inventory **losses**.³

(c) Value of Gross Inventory Adjustments. Determine the arithmetic sum of the monetary value of increases and decreases to accountable stock record **balances** as a result of physical inventory. Compute the Quarter Ending value of gross adjustments by adding the absolute values of the Quarter Ending inventory gains and losses (subparagraphs e.(3)(a) and (b) above). Compute the **FY** to Date value of gross adjustments by adding the Quarter Ending value of gross adjustments (computed above) to the prior quarter **FY** to Date value of gross adjustments.³

(d) Value of Inventory Gain Reversals

³In the first report of each fiscal year, the prior quarter **FY** to Date value **will** always be zero.

1 Reversal of Current Quarter Gains. Enter the total monetary value of decreases to the accountable stock record balances as a result of reversing gain adjustments processed during the reporting period.

2 Reversal of Prior Quarters' Gains. Enter the total monetary value of decreases to the accountable stock record balances as a result of reversing gain adjustments reported in prior quarters.

(e) Value of Inventory Loss Reversals

1 Reversal of Current Quarter Losses. Enter the total monetary value of increases to the accountable stock record balances as a result of reversing loss adjustments processed during the reporting period.

2 Reversal of Prior Quarters' Losses. Enter the total monetary value of increases to the accountable stock record balances as a result of reversing loss adjustments reported in prior quarters.

(4) Gross Adjustments as a Percent of:

(a) Average Value of the Inventory. Compute this figure by dividing the value of the gross adjustments by the average value of the inventory and multiplying by 100 (preceding subparagraph e. (3)(c) \div e. (1) \times 100).

(b) Value of Line Items Inventoried. Compute this figure by dividing the value of the gross adjustments by the value of line items inventoried and multiplying by 100 (preceding subparagraph e. (3)(c) \div e. (2) \times 100).

DECISION RULES

MINIMUM RESEARCH REQUIREMENTS
FOR POTENTIAL OR ACTUAL PHYSICAL INVENTORY ADJUSTMENTS

A. <u>CONDITION OF DISCREPANCY</u> 1. Value between \$.01 through \$800.00. 2. Value between \$800.00 through \$16,000.00. 3. Value greater than \$16,000.00. 4. Controlled inventory item.	1	2	3	4
B. <u>RESEARCH ACTION REQUIRED BEFORE ADJUSTMENT</u> Postcount validation. Preadjustment research (adjustment quantity determined).	Yes Yes⁴	Yes Yes	Yes Yes	Yes Yes
C. <u>CAUSATIVE RESEARCH REQUIRED</u> Sample causative research. 100 percent causative research.	No No	Yes No	No Yes	No Yes⁵

⁴Research is not required for those adjusted actions **resulting from** a denial.

⁵Sample causative research in **lieu** of **complete** causative research for **pilferable** item discrepancies valued up to \$2,500.00 may be accomplished at the discretion of DoD Components.

Figure 7-1

CONTROLLED INVENTORY ITEMS

The following is, a list of controlled inventory items which require a high degree of protection "and physical inventory control. The DoD Components are expected **to** include additional items that are determined to require a similar degree of **control**:

- a. Classified items.
- b. **Pilferable** items.
- c. Sensitive items:
 - (1) Narcotics and drug abuse items.
 - (2) Precious metals.
 - (3) Hazardous items.
 - (4) Arms:
 - (a) Handguns.
 - (b) Shoulder fired weapons.
 - (c) Light automatic weapons up to and including .50 caliber machine guns.
 - (d) **Recoilless** rifles up to and including **106mm**.
 - (e) Mortars up to and including **81mm**.
 - (f) Rocket launchers, **manportable** (see (h) below).
 - (g) Grenade launchers, rifle and shoulder fired.
 - (h) Individual operated weapons which are portable and/or can be fired without special mounts or firing devices and which have potential use in civil disturbances and are vulnerable to theft.
 - (5) Ammunition:
 - (a) Ammunition for weapons listed above.
 - (b) Bulk explosives.
 - (c) Antitank and anti personnel **landmines**.
 - (d) Hand grenades.

- (e) Demolition charges and related items; e.g., blasting caps, detonating cord, safety fuses, detonators, destructors, primers, firing devices, **squibs**, igniters, demolition kits, explosive kits, etc.
- (f) Fuses.
- (g) Boosters.
- (h) Supplementary charges (not assembled to end items).
- (i) Explosive bolts, explosive cartridges, and related items.
- (j) Safety and arming devices.
- (k) Incendiary destroyers.
- (l) Fuel thickening compound.
- (m) Riot control agent, bulk, 60 pound package or less.
- (n) Warheads and rocket motors (**unpackaged** weight of 60 pounds or less).
- (o) Missiles and rockets (unpacked weight of 60 pounds or less).
- (p) End items of conventional and guided missile ammunition (except artillery rounds, bombs, and torpedoes) which have an individual item (i.e., unit of issue) container or package weight of 60 pounds or less and which have potential use in civil disturbances and are vulnerable to theft.